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UNCLAS SECTION 01 OF 03 ROME 001409

SIPDIS

EUR/WE, EB/TRA, DRL/IL
DOL FOR ILAB/BRUMFIELD
USDOC 4220/IEP/EUR/OWE/SED/DDEFALCO
TREASURY FOR CAROL CARNES

SENSITIVE

E.O. 12958: N/A

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PAGE 02 ROME 01409 01 OF 03 031346Z
TAGS: ECON EFIN EIND ELAB PGOV EFIN EIND ELAB PGOV EFIN EIND ELAB PGOV IT ITECON ITECON
SUBJECT: FIAT: AN UPDATE

REF: A) 02 ROME 5139

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¶1. (SBU) SUMMARY: A SENIOR FIAT OFFICIAL GAVE US A DETAILED EXPLANATION OF THE FIRM'S FINANCIAL PROBLEMS, STEPS TAKEN TO DATE TO IMPROVE THE SITUATION, AND FIAT'S FUTURE OUTLOOK. WITH THE SALE OF ITS TWO PROFITABLE JEWELS -- TORO INSURANCE AND FIAT AVIO -- FIAT WILL BE A SMALLER FIRM, CENTERED ON AUTOS AND HEAVY EARTHMOVING EQUIPMENT. RECOVERY OF FIAT WILL DEPEND ON AN ECONOMIC RECOVERY IN ITALY AND THE EU, AS WELL AS IMPROVED CUSTOMER ACCEPTANCE OF FIAT MODELS. A DECISION TO EXTEND GOI SUBSIDIES FOR AUTO PURCHASES MAY HELP. END SUMMARY.

¶2. (SBU) ECONCOUNS AND ECON SPECIALIST MET FIAT'S SENIOR VICE PRESIDENT FOR EXTERNAL RELATIONS, MAURIZIO BERETTA, ON MARCH 28 TO DISCUSS FIAT'S EFFORTS TO RECOVER FROM ITS FINANCIAL MELTDOWN. BERETTA NOTED THAT MUCH OF THE PRESS COVERAGE OF THE FIAT SITUATION HAD BEEN EITHER DISTORTED OR EXAGGERATED. HE OFFERED TO DISCUSS THE CAUSES OF THE FIAT CRISIS, THE REMEDIES THAT HAD BEEN PURSUED AND FIAT'S OUTLOOK FOR THE FUTURE.

HOW DID THIS HAPPEN?

UNCLASSIFIED

PAGE 03 ROME 01409 01 OF 03 031346Z

¶3. (SBU) BERETTA TOLD ECONCOUNS THAT TWO CONCURRENT NEGATIVE DEVELOPMENTS (IN ADDITION TO A GENERAL SLOWDOWN OF THE ECONOMY) CAUSED THE FIAT CRISIS TO EMERGE SO VIOLENTLY OVER 2001/2002. FIRST, FIAT'S STRATEGY IN THE '90S HAD BEEN TO BECOME A GLOBAL COMPANY. THUS, IT HAD HEAVILY INVESTED OUTSIDE ITALY, PARTICULARLY IN COUNTRIES SUCH AS ARGENTINA, BRAZIL, TURKEY, INDIA, CHINA AND POLAND. THE ECONOMIC HARDSHIPS AND FINANCIAL CRISES WHICH HIT THESE COUNTRIES OVER THE LAST FEW YEARS LED TO THE FAILURE OF MANY OF THESE INVESTMENTS. ARGENTINA WAS AN EXTREME CASE, WITH CAR SALES FALLING BY 90 PERCENT. HOWEVER, LOSSES WERE SERIOUS ALSO IN BRAZIL AND TURKEY, AS WELL AS OTHER COUNTRIES.

¶4. (SBU) THE SECOND DEVELOPMENT TO HIT FIAT WAS THE MORE RIGOROUS APPROACH TO COMPANY DEBT EVALUATION TAKEN BY RATING AGENCIES AFTER THE ENRON CASE. FIAT HAD RUN A VERY LARGE DEBT (APPROXIMATELY USD 25 BILLION) IN NET TERMS) FOR A VERY LONG TIME. FIAT MANAGEMENT FELT THAT THE LARGE DEBT WAS MANAGEABLE, AS IT WAS LARGELY BALANCED BY ACCOUNTS RECEIVABLE FROM PRIVATE CAR PURCHASERS "WHO ARE TRADITIONALLY GOOD PAYERS." AFTER ENRON, HOWEVER, FIAT'S CREDITORS ARGUED THAT THE OUTSTANDING DEBT WAS TOO LARGE, AND RATING AGENCIES THREATENED TO DOWNGRADE THE FIRM. FIAT WAS REQUIRED TO RAPIDLY REDUCE ITS NET DEBTS BY ONE HALF (FIAT'S CREDITORS ARE PRINCIPALLY THE FOUR LARGEST ITALIAN BANKS: UNICREDITO, CAPITALIA, BANCAINTESA, SANPAOLO).

¶5. (SBU) FIAT WAS ABLE TO HALVE ITS NET DEBT IN 2002 BY
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PAGE 04 ROME 01409 01 OF 03 031346Z
SELLING 38 PERCENT OF FERRARI, 14 PERCENT OF ITS 38 PERCENT STAKE IN ENERGY COMPANY EDISON, AND BY OBTAINING A CITICORP CREDIT LINE GUARANTEED BY THE REMAINING INTEREST IN EDISON. IN 2002, FIAT ALSO SOLD ITS SIX PERCENT INTEREST IN GENERAL MOTORS.

FOCUSING ON THE CORE BUSINESS

¶6. (SBU) FIAT'S OBJECTIVE, SAID BERETTA, WAS TO FINANCE

RESTRUCTURING OF ITS CORE BUSINESS. FIAT PLANNED TO RAISE USD 4 BILLION DURING 2003 THROUGH THE SALE OF TORO ASSICURAZIONI (A FIAT OWNED INSURANCE COMPANY) AND FIAT AVIO. A BINDING PURCHASE AGREEMENT ALREADY HAS BEEN SIGNED (FOR USD 2.4 BILLION) FOR TORO. BERETTA IS CONFIDENT THAT A BINDING PURCHASE AGREEMENT FOR FIAT AVIO WILL BE SIGNED BY JUNE 2003 WITH THE CARLYLE GROUP (U.S.) AND ITALIAN PARASTATAL AEROSPACE/DEFENSE COMPANY FINMECCANICA FOR A PRICE RANGING FROM USD 1.6 BILLION TO 1.8 BILLION. FINMECCANICA WOULD BE A MINORITY PARTNER.

UNCLASSIFIED

UNCLASSIFIED PTQ0790

PAGE 01 ROME 01409 02 OF 03 031347Z
ACTION EB-00

INFO	LOG-00	AID-00	CIAE-00	CTME-00	DODE-00	EXME-00	EUR-00
	E-00	UTED-00	VC-00	FRB-00	TEDE-00	INR-00	ITC-01
	VCE-00	AC-01	NSAE-00	OMB-01	OPIC-01	PRS-00	ACE-00
	SP-00	SSO-00	STR-00	TEST-00	TRSE-00	USIE-00	DRL-01
	G-00	SAS-00	/005W				

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R 021412Z APR 03
FM AMEMBASSY ROME
TO SECSTATE WASHDC 9078
INFO AMCONSUL MILAN
AMCONSUL FLORENCE
AMCONSUL NAPLES
EU MEMBER STATES COLLECTIVE
DEPT OF LABOR WASHDC
DEPT OF COMMERCE WASHDC
DEPT OF TREASURY WASHDC

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UNCLASSIFIED

PAGE 02 ROME 01409 02 OF 03 031347Z
TAGS: [ECON](#) [EFIN](#) [EIND](#) [ELAB](#) [PGOV](#) [EFIN](#) [EIND](#) [ELAB](#) [PGOV](#) [EFIN](#) [EIND](#) [ELAB](#) [PGOV](#) [IT](#) [ITECON](#) [ITECON](#)
SUBJECT: FIAT: AN UPDATE

17. (SBU) ONCE TORO AND FIAT AVIO ARE SOLD, FIAT PLANS TO CONCENTRATE ON ITS THREE CORE COMPANIES:

FIAT AUTO - CAR MANUFACTURING
CNH - A U.S. INCORPORATED FARMING MACHINERY COMPANY
IVECO - COMMERCIAL VEHICLES

18. (SBU) THE THREE FIRMS GENERATE AROUND USD 40 BILLION IN ANNUAL REVENUES (USD 20 BILLION, USD 11 BILLION AND USD 9 BILLION RESPECTIVELY). FIAT WILL RETAIN SMALLER ACTIVITIES SUCH AS ITS PLANT MANAGEMENT COMPANY COMAU, SPARE PARTS PRODUCER MAGNETI MARELLI, AND THE TURIN-BASED DAILY NEWSPAPER LA STAMPA. FIAT WILL ALSO KEEP ITS 60 PERCENT SHARE IN FERRARI. BERETTA SAID THAT FIAT INTENDS TO INVEST USD 2.5 BILLION ANNUALLY FOR EACH OF THE NEXT THREE YEARS TO RENEW THE ENTIRE AUTO PRODUCTION LINE.

RELATIONSHIP WITH GENERAL MOTORS

19. (SBU) BERETTA DETAILED THE THREE BASIC POINTS OF THE FIAT-GENERAL MOTORS AGREEMENT.

-- CREATION OF A JOINTLY OWNED COMPANY TO PROCURE AND DEVELOP THE ELECTRO-MECHANICAL CORE (MOTORS, ELECTRONIC SYSTEMS GEARS, ETC.) OF FIAT AND OPEL (GM-OWNED) CARS FOR EUROPEAN AND SOUTH AMERICAN MARKETS. BERETTA CLAIMED
UNCLASSIFIED

PAGE 03 ROME 01409 02 OF 03 031347Z
THAT THIS VENTURE WAS PROCEEDING WELL.

-- INTEGRATED/JOINT DEVELOPMENT OF NEW FIAT AND OPEL MODELS. FOR EXAMPLE, THE 2006 VERSIONS OF FIAT PUNTO AND OPEL CORSA LIKELY WILL HAVE 70 PERCENT OF PARTS IN COMMON, ESSENTIALLY ALL "NON-VISIBLE" COMPONENTS OF THE CARS WILL BE IDENTICAL.

-- THE PUT OPTION. FIAT HAS THE OPTION TO SELL ITS ENTIRE REMAINING CAPITAL (80 PERCENT - GM ALREADY OWNS 20 OF FIAT) TO GENERAL MOTORS ANY TIME BETWEEN JANUARY 2004 AND JULY 2009 AT "FAIR MARKET VALUE". BERETTA SAID THAT

IT IS IMPOSSIBLE TO PREDICT WHETHER THE OPTION WILL BE USED. IN ANY CASE, HE STRESSED, "IT IS IN THE BEST INTEREST OF BOTH COMPANIES THAT FIAT OVERCOME DIFFICULTIES AND FLOURISH AGAIN."

¶10. (SBU) BERETTA CONFIRMED THAT, WHETHER THE PUT OPTION IS EXERCISED OR NOT, THE INTEGRATION PROCESS WITH OPEL WILL CONTINUE. TOGETHER, FIAT AND OPEL HAVE CLOSE TO A 15 PERCENT SHARE OF THE EUROPEAN MARKET, CLOSE TO VOLKSWAGON'S 16 PERCENT SHARE.

THE FUTURE.. "NOT TOO GOOD IN 2003"

¶11. (SBU) BERETTA SUGGESTED THAT RESTRUCTURING WOULD CONTINUE OVER THE NEXT YEAR OR TWO. AT THAT POINT, HE PREDICTED, FIAT WILL HAVE OVERCOME MOST OF ITS FINANCIAL DIFFICULTIES AND BE A PRINCIPAL PLAYER IN THE EUROPEAN
UNCLASSIFIED

PAGE 04 ROME 01409 02 OF 03 031347Z
AUTO MARKET. ASKED ABOUT THE OUTLOOK FOR THE ITALIAN AUTO SECTOR, BERETTA WAS PESSIMISTIC IN THE SHORT TERM. HE ANTICIPATED A NET DROP IN SALES WHEN GOI SUBSIDIES EXPIRE MARCH 31. BERETTA INDICATED THAT HE HAD BEEN UNSUCCESSFUL IN CONVINCING PRODUCTIVE ACTIVITIES MINISTER MARZANO AND FINANCE MINISTER TREMONTI TO EXTEND AUTO PURCHASE SUBSIDIES BEYOND THAT DATE. (NOTE: PRODUCTIVE ACTIVITIES MINISTER MARZANO, IN FACT, ANNOUNCED MARCH 29 THAT THESE SUBSIDIES WOULD BE EXTENDED.)

¶12. (SBU) BERETTA DOUBTED THAT THE ITALIAN OR EUROPEAN ECONOMY WILL RECOVER DURING 2003, ALTHOUGH HE NOTED THAT DEVELOPMENTS IN IRAQ WOULD PLAY A MAJOR ROLE. BERETTA BELIEVES THAT, WHILE NEW MODELS MAY SERVE TO INCREASE FIAT'S SHARE OF THE AUTO MARKET, THAT MARKET IS SHRINKING. FIAT WILL HAVE, AT BEST, A LARGER PIECE OF A SMALLER PIE.

¶13. (SBU) BERETTA WAS POSITIVE, HOWEVER, THAT THE RECENT APPOINTMENT OF UMBERTO AGNELLI AS FIAT CHAIRMAN WOULD BE GOOD FOR THE COMPANY. THE AGNELLIS STILL OWN AROUND 30 PERCENT OF FIAT AND, HE STRESSED, THE RETURN OF THE

UNCLASSIFIED

UNCLASSIFIED PTQ0792

PAGE 01 ROME 01409 03 OF 03 031347Z
ACTION EB-00

INFO LOG-00	AID-00	CIAE-00	CTME-00	DODE-00	EXME-00	EUR-00
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VCE-00	AC-01	NSAE-00	OMB-01	OPIC-01	PRS-00	ACE-00
SP-00	SSO-00	STR-00	TEST-00	TRSE-00	USIE-00	DRL-01
G-00	SAS-00	/005W				

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FM AMEMBASSY ROME
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INFO AMCONSUL MILAN
AMCONSUL FLORENCE
AMCONSUL NAPLES
EU MEMBER STATES COLLECTIVE
DEPT OF LABOR WASHDC
DEPT OF COMMERCE WASHDC
DEPT OF TREASURY WASHDC

UNCLAS SECTION 03 OF 03 ROME 001409

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UNCLASSIFIED

PAGE 02 ROME 01409 03 OF 03 031347Z
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AGNELLI FAMILY WILL BRING NEW LIFE TO FIAT.

EMPLOYMENT LEVELS

¶14. (SBU) BERETTA WAS MORE OPTIMISTIC REGARDING FIAT'S ABILITY TO AVOID CLOSING PLANTS OR FIRING MOST OF ITS WORKERS. HE INDICATED THAT, OUT OF A TOTAL OF 8,100 FIAT

FACTORY EMPLOYEES TEMPORARILY LAID OFF, APPROXIMATELY 500 WERE ALREADY ON EXTENDED UNEMPLOYMENT BENEFITS LEADING TO RETIREMENT. APPROXIMATELY 2000 WOULD EITHER RETIRE (NATURALLY OR THROUGH EARLY RETIREMENT SCHEMES) OR MOVE INTO LONG TERM UNEMPLOYMENT PROGRAMS THAT WOULD TAKE THEM TO RETIREMENT AGE. THE REST WOULD RESUME WORK. OF THE PRINCIPAL FIAT FACTORIES, ONLY THE SICILIAN PLANT OF TERMINI IMERESE WILL SUFFER SUBSTANTIAL REDUCTIONS IN FORCE. BERETTA DID NOT FORESEE SIGNIFICANT PERSONNEL REDUCTIONS FOR CASSINO, MELFI AND THE HISTORIC MIRAFIORI (TURIN) FACTORIES. THE POMIGLIANO (NAPLES) PLANT, WHICH PRODUCES ALFA ROMEOS, MAY EVEN EXPAND. BERETTA INDICATED THAT, EVEN AFTER SELLING TORO AND FIAT AVIO, FIAT WOULD REMAIN ITALY'S LARGEST INDUSTRIAL GROUP.

COMMENT

UNCLASSIFIED

PAGE 03 ROME 01409 03 OF 03 031347Z
15. (SBU) FIAT, ACCORDING TO BERETTA, HAS DRAMATICALLY RETHOUGHT ITS ENTIRE CORPORATE STRATEGY. BY SELLING OFF FAMILY JEWELS SUCH AS TORO AND FIAT AVIO, THE FIRM HOPES TO SURVIVE (IN THE SHORT TERM) AND REPOSITION ITSELF TO SUCCEED IN ITS CORE BUSINESS (OVER THE LONGER TERM). BERETTA WAS NOT PARTICULARLY OPTIMISTIC REGARDING EITHER FIAT OR THE ITALIAN AUTO MARKET IN GENERAL. NONETHELESS, HE ARGUED THAT FIAT WOULD RECOVER FROM ITS TRAVALS TO REMAIN A PLAYER IN THE EUROPEAN AUTOMOBILE SECTOR.

16. (SBU) WHILE THE GOI HAS DONE ITS BEST TO AVOID INTERVENING LEGALLY OR FINANCIALLY IN THE FIAT CRISIS, WE DO NOT DOUBT THAT IT HAS PLAYED A KEY ROLE BEHIND THE SCENES. THIS ROLE, HOWEVER, HAS BEEN PRIMARILY ENCOURAGING DIALOGUE WITH CREDITORS AND UNIONS, AND CONVINCING FIAT MANAGEMENT THAT THE FIRM WOULD NOT BE BAILED OUT AND, THUS, WOULD HAVE TO SAVE ITSELF.

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